Challenges Faced by VHDA

The role of the Housing Finance Agency has always been to assist first-time homebuyers in two ways:

- By creating affordable opportunities to purchase homes in partnership with the private sector.
- By providing assistance to those same borrowers to remain in the home during difficult financial times.

VHDA

VHDA currently faces two major challenges with homeownership in Virginia

1. Due to the collapse of the subprime market, present loan demand for our products greatly exceeds the supply of funds.
2. The results of uncontrolled mortgage lending presents a threat to households and communities across the Commonwealth.

VHDA®

Challenge #1: Demand for VHDA funds is running 50% to 100% higher than the level we are able to serve

- Retrenchment in the mortgage industry has been severe, leaving Fannie Mae, Freddie Mac, and state housing finance agencies as virtually the only sources of affordable credit for first-time homebuyers.
- VHDA faces obstacles to accessing adequate loan capital
  - The ongoing crisis in the credit markets is constraining our ability to access adequate volumes of tax-exempt and taxable loan funds under favorable terms and conditions
  - Annual tax-exempt bond issuance authority remains well below the average level for the first half of this decade

VHDA®

Consequently, VHDA has had to curtail home purchase programs

- By restricting the number of mortgage lenders who may participate in our program.
- As well as, taking a number of steps to tighten loan pricing and underwriting and suspend certain loan programs in order to balance loan supply and demand.
- This has led to the removal of some of our most popular programs and a "back-to-basics" approach for our lending programs – concentrating predominately on our lower income and minority borrowers.

VHDA®

Despite market challenges, VHDA expects to finance an estimated 6,400 home purchase loans using an estimated $850 million in bond funds to first-time homebuyers in FY2008. However, this is in stark contrast to the $1.4 billion produced in FY2007.

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Challenge #2: Rising foreclosures in Virginia are being driven by a number of different factors

- The expanded use of subprime and alt-A loan products.
- Use of high-cost, non-traditional mortgage products to purchase homes that households simply could not afford.
- Use of high-cost mortgages to consolidate household debt.
- An increase in defaults and declining home values have put homeowners “upside down” with regard to their mortgage and has led to tightened credit standards that limit homeowners’ refinancing and resale opportunities.

VHDA

Profile of Virginia's Foreclosures

- National Mortgage Bankers Association reported that Virginia had a foreclosure rate of 1.30% which is nearly half of the national rate (2.47%) in the fourth quarter of 2007.
- However, Virginia's foreclosures increased 4X over an 18 month period.
- Over half (58%) of foreclosures in Virginia are subprime loans, even though such loans make up only 9% of all home loans
- Another 27% of foreclosures are prime ARM loans
- Most heavily impacted are communities with high minority concentrations
  – **In 2005, 47% of loans to African Americans and 38% of loans to Hispanics were subprime**

VHDA

HFAs to the Rescue?

- Growing defaults have increased the pressure on HFAs to help provide a solution.
- Unfortunately, strained resources have made our ability to assist very difficult.
- Traditionally, many of these troubled borrowers would have been outside our qualifying criteria, so it is difficult to assist even with resources.
- Several States have rescue programs with very limited success

VHDA®

VHDA's response provides multifaceted assistance to Virginia's growing foreclosure problem

- Co-leader of Governor Kaine's Foreclosure Prevention Task Force
- Training and certifying foreclosure counselors, as well as ongoing support of counseling programs to build capacity for housing counselors
- Organizing and hosting 5 foreclosure prevention clinics for troubled homeowners in the month of June
- Developing a public outreach and awareness campaign as well as, development of a website in English and Spanish with information and advice on preventing foreclosures (www.vhdaespanol.com)

VHDA®

Training Results to Date

- Ten trainings have been held to date
  - 239 new counselors trained
  - 18 Spanish speaking counselors
- Media campaign and website launched on May 19th
- Expect to have an estimated 240 new loss mitigation and foreclosure counselors trained by the end of June

VHDA®

In Conclusion

- **Current Federal legislation may increase tax-exempt bonding capacity; however, VHDA will be competing with other issuers within the State for the increased bond cap.**
- **In addition, this will be a temporary solution, since the increase will be for a limited period of time and the increase may include new program expectations.**
- **We are cautiously optimistic that certain markets – namely Prince William are seeing an slight upturn in terms of recovery; however, it is too early to anticipate that all other markets will follow suit.**

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